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UNCLAS KINGSTON 000390

SIPDIS

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

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SUBJECT: Jamaican Interest Rates Plunge

1. The Bank of Jamaica (BOJ) has reduced interest rates on all its open market instruments effective February 7, 2005. While this reduction is the first for 2005, it represents the twelfth such decline in just over a year. Interest rates have moved from 21 percent in November 2003 to the current rate of 13.5 percent. These latest reductions, which range from 0.3 to 0.5 percentage points on short and long-term instruments, respectively, have also brought interest rates to their lowest levels in over a decade.

2. The rate adjustments were not surprising, as declining treasury-bill yield had already signaled the markets' anticipation of further cuts reflecting the continued improvement in the country's macro-economy. In particular, there have been robust foreign exchange flows from tourism and foreign investment. This has served to shore up stability in the foreign exchange market as well as adding to the stock of Net International Reserves (NIR), which now stands at USD 1.9 billion, a level the BOJ suggests is more than adequate to underwrite near term stability. The foreign exchange market is now experiencing its longest period of stability in over six years and the stock of NIR is at its highest level in over three years.

3. In addition to the foregoing, the Bank of Jamaica is also upbeat about the near term prospects for economic growth, particularly given the rebound in agriculture following Hurricane Ivan. The Bank is also forecasting a marked slowdown in inflation during the first quarter of 2005 and a return to single digit inflation during fiscal year 2006/07.

TIGHE